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LOAN PROGRAM OF THE FARMERS HOME ADMINISTRATION

Prepared as an information aid, in explaining the Farmers Home Administration program to agricultural leaders of other countries.

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LOAN PROGRAM OF THE FARMERS HOME ADMINISTRATION

The Farmers Home Administration is an agency in the U. S. Department of Agriculture. It was established by act of Congress August 14, 1946, to conduct a loaning program to meet credit needs of farmers that could not be met by other lenders. The Act continued and broadened some of the loan services that had been made available by predecessor agencies. Additional loan services have since been provided.

I

Distinctive Features of the Farmers Home Administration Credit Program

A. Loans are made to help develop and strengthen family-type farms.

B. These loans only supplement credit extended by other lenders. Loans are made only when credit is not available from other sources and Farmers Home Administration borrowers agree to obtain their credit from other lenders when they reach or regain a position where they can do so. Every year thousands of farmers graduate to other lenders. In 1955 more than 50,000 farmers paid their loans in full to Farmers Home Administration.

C. Credit is backed with advice and technical assistance. This assistance is provided borrowers on the basis of their individual problems and needs. Assistance is given in analyzing their problems, planning a sound farming operation, establishing efficient farm management practices and making a wise use of credit.

D. Farmers that have had losses because of conditions beyond their control such as drought, floods or adverse economic conditions, and are in need of credit to continue farming and rebuild their credit standing, are furnished credit according to their needs.

E. The objective of Farmers Home Administration is to enable farm families to become soundly established in successful, well balanced systems of farming.

II

Organization of the Farmers Home Administration

A. The National Office in Washington, D. C. administers the program in the entire country and in accordance with laws passed by Congress, decides policies, issues procedures, controls budgets and gives technical training to field staffs.

B. The National Finance Office, in St. Louis, Missouri, handles fiscal and accounting services. It keeps records and accounts for all funds disbursed and collected by the agency.

C. Forty-one State Offices (some offices serve more than one state) direct the field staff in their area, give training to county office staffs, analyze loan programs, control state budgets for loans and approve the larger loans. In each State there is an advisory committee composed of leading farmers and business men interested in farmers' problems that assists the State Director apply national policies within the State.

D. County Offices (there are about 1,500 serving 3,000 counties, some offices serve several counties) receive applications for loans from farmers. County supervisors assist farmers prepare Farm and Home Plans, approve most loans made, give technical advice to borrowers, make field visits to borrowers' farms, service security given for loans and make collections from borrowers and transmit these collections to the National Finance Office.

E. County Farmers Home Administration Committees consist of three local farmers in every county. These committees determine eligibility of applicants, certify the value of farms being purchased or improved by Farmers Home Administration loans and make recommendations concerning loan approval and loan servicing actions.

The Farmers Home Administration has approximately 5,300 full-time employees, 230 of whom are in Washington, and 9,300 state and county committeemen who are part-time employees paid on an average of 8 to 10 days a year.

III

The Place of Farmers Home Administration in the Agricultural Credit Field

The Farmers Home Administration plays an important role in the agricultural credit field, but it is a supplemental role.

While each year, in recent years, the agency has advanced and insured more funds than the year before, the agency still provides a relatively small amount of the agricultural credit used by farmers. As of December 31, 1955, the principal outstanding balance on loans made and insured by the Farmers Home Administration was approximately $822,000,000. This represented a little less than 5 percent of the outstanding indebtedness of farmers at that time. The outstanding real estate loans totaled a little less than 5 percent of the farm real estate mortgage debt, the outstanding operating loans totaled a little more than 5 percent of the non-real estate debt.

All told, loans made and insured by the Farmers Home Administration in fiscal 1955 totaled more than $293,000,000 - a record level. About a quarter of a million farm families worked their farms with the help of Farmers Home Administration credit during 1955.

IV

Types of Loans Made by the Farmers Home Administration

A. Production and Subsistence Loans

These loans are used primarily to obtain resources needed to become successfully established in farming. They are made from funds appropriated by Congress. In fiscal 1955 the volume of production and subsistence loans totaled more than $133,000,000. Approximately 75 percent was invested in equipment and livestock.

To be eligible an applicant must:

1. Be unable to obtain adequate credit from other sources at reasonable terms.

2. Be a citizen of the United States and of legal age.

3. Have good character.

4. Have the necessary experience or training and managerial ability to operate a family-type farm.

5. Own or rent adequate land resources to carry on successful family-type farming operations.

6. Plan a system of farming to provide adequate volume of production.

7. Indicate that he will endeavor honestly to carry out recommended farm management practices.

Loan funds may be used to:

1. Purchase essential farm equipment and productive livestock.

2. Pay necessary farm operating and family living expenses.

3. Make minor real estate improvements.

4. Pay secured debts on livestock and farm equipment when necessary in connection with a loan for other purposes.

Farm management guidance is provided in:

1. Developing long time and annual farm and home plans that provide for a sound system of farming.

2. Making needed adjustments in farming operations and completing farm improvements.

3. Adopting approved farm and home practices.

4. Keeping farm and home records.

5. Making wise use of income including orderly repayment of debts.

6. Making yearly analysis of farm and home business as a basis for further improving the farm and home business.

Loan terms and repayment policies are:

1. Interest rate is 5 percent on unpaid principal.

2. Single loans up to $7,000 to one individual. Additional loans may be made provided total P&S debt does not exceed $10,000.

3. Amount borrowed for operating expenses to be repaid from the year's income.

4. Amount borrowed for capital goods scheduled for repayment in annual installments not to exceed 7 years.

5. Amount and time of repayment determined by availability of income for debt payment.

6. No additional P&S loans may be made after 7 years continuous indebtedness.

Security requirements are:

1. A first lien on productive livestock and farm equipment purchased.

2. The best lien obtainable on productive livestock and farm equipment owned.

3. A first lien on crops and assignments on some items of income.

4. A subordination agreement by landlord when needed.

B. Farm Ownership Loans

These loans assist farm families to become successfully established on adequate family-type farms. Farm ownership loans are made either from funds furnished by private lenders and insured by the Farmers Home Administration or from funds borrowed from the U. S. Treasury as authorized by Congress. During the 1955 fiscal year insured loans totaled $31,933,000 and direct loans $18,999,000.

To be eligible an applicant must:

1. Be unable to obtain adequate credit from other sources at reasonable terms.

2. Be a citizen of the United States and of legal age.

3. Have good character.

4. Have the necessary experience or training and managerial ability to operate a family-type farm.

5. Unless a veteran, obtain or recently have obtained, a major portion of his income from farming operations.

6. Have resources of livestock, machinery, equipment and operating capital to successfully operate the family-type farm or have available a source of credit for acquiring such resources.

7. Indicate that he will endeavor honestly to carry out recommended farm management practices.

8. Be, or plan to be, as a result of the loan, a full-time farmer.

Loan funds may be used to:

1. Buy an adequate family-type farm or buy land to enlarge an undersized farm.

2. Provide necessary water, and water facilities.

3. Provide basic land and soil improvement.

4. Construct, repair, and improve buildings necessary for successful operation of a family-type farm.

5. Refinance debts on a farm owned by an applicant when such refinancing is not the primary purpose of the loan.

6. Pay authorized fees.

Farm management guidance is provided in:

1. Developing long time and annual farm and home plans that provide for a sound system of farming.

2. Making needed adjustments in farming operations and completing farm improvements.

3. Adopting approved farm and home practices.

4. Keeping farm and home records.

5. Making wise use of income including orderly repayment of debts.

6. Making yearly analysis of farm and home business as a basis for further improving the farm and home business.

Loan terms and repayment policies are:

1. On insured loans, $3\frac{1}{2}$ percent interest and 1 percent loan insurance charge on the unpaid principal.

2. On direct loans, $4\frac{1}{2}$ percent interest on the unpaid principal.

3. Payments are due on January 1 each year. Borrowers are encouraged to build reserve by paying ahead of schedule.

4. All loans are for 40 years except that building improvement loans may be made for shorter periods.

Special requirements are:

1. Loans are made only on family-type farms personally operated by the owner on a full-time basis.

2. Loans cannot exceed the county average value of efficient family-type farms.

3. Loans cannot exceed the value of the farm established by the Farmers Home Administration county committee based on an earning capacity appraisal report.

4. Insured loans are limited to either 90 percent of the county committee's valuation of the farm, or 90 percent of the total cost of acquiring the farm, whichever is less.

Security requirements are:

1. A first real estate mortgage only for an insured loan.

2. A first or second real estate mortgage for a direct loan.

3. Buildings insured against loss by fire or other casualties.

4. Real estate taxes must be paid.

C. Soil and Water Conservation Loans

These loans are made to improve, protect and make better use of farm land. They are made as insured or direct loans. During the 1955 fiscal year insured loans totaled $15,469,000 and direct loans $3,022,000.

To be eligible an applicant must:

1. Be unable to obtain adequate credit from other sources at reasonable terms.

2. Be a citizen of the United States and of legal age.

3. Have good character.

4. Be an owner or operator of a farm.

5. Have farming operations comparable to those of persons primarily engaged in farming.

6. Nonprofit organizations, such as incorporated water users' associations are eligible for a loan when they are unable to obtain adequate credit elsewhere and meet certain other conditions.

Loan funds may be used to:

1. Carry out approved soil conservation practices.

2. Develop irrigation systems.

3. Develop farmstead water supply systems.

4. Develop drainage systems.

5. Pay authorized fees.

Loan terms and repayment policies are:

1. For insured loans, $3\frac{1}{2}$ percent interest and 1 percent mortgage insurance charge on the unpaid principal balance.

2. For direct loans, $4\frac{1}{2}$ percent interest on the unpaid principal balance.

3. Loans are repayable in 1 to 20 years, depending on ability to pay and security given.

4. Repayments are scheduled in equal annual installments except that, when necessary, the first or first two installments may be scheduled for interest only.

5. Loans to an individual cannot exceed $25,000.

Special requirements are:

1. Loans are made only when the use and disposal of water comply with Federal, state, and local laws and regulations.

2. Supervisory assistance is given to the extent necessary to assure repayment of the loan, establishment of the improvement or facility, and maintenance of the security property.

3. Practices financed only when in accordance with Extension Service and Soil Conservation Service recommendations.

4. Each applicant is responsible for obtaining plans, specifications, and cost estimate for the planned improvement of facility.

5. When real estate is taken as security, property insurance will be required.

Security requirements are:

1. A short-term loan is secured by either a real estate mortgage, chattel mortgage, or both.

2. A long-term loan is secured by a real estate mortgage.

D. Special Livestock Loans

These loans are used to provide emergency credit to established producers of cattle, sheep, and goats. They are made from funds provided by Congress. During the 1955 fiscal year, the loans totaled $19,404,000.

To be eligible an applicant must:

1. Be an established producer of cattle, sheep, or goats.

2. Be unable temporarily to obtain needed credit from banks or other responsible sources.

3. Have good character.

4. Have a good past record of livestock operations.

5. Have the resources, experience, and managerial ability deemed necessary for the success of the operation.

6. Have reasonable prospects of repayment and return to private credit.

Loan funds may be used to:

1. Purchase or produce feed for livestock owned.

2. Pay essential operating expenses, including labor and living costs.

3. Purchase livestock for replacement or restocking.

4. Pay grazing fees and rent for pasture and land on which feed is produced.

5. Hire, repair and replace farm or ranch equipment and machinery.

6. Build or repair fences.

7. Pay costs of transportation of livestock, including to and from grazing lands.

8. Repair or improve water supplies, necessary to the livestock operation.

9. Pay cost of normal maintenance of farm and ranch buildings.

Loans may not be made to:

1. Refinance existing debts.

2. Produce cash crops.

3. Finance a commercial feed lot operation.

4. Enable a borrower to expand substantially his normal operations.

Loan terms and repayment policies are:

1. Interest rate is 5 percent on the unpaid principal.

2. Loans for annual operating expenses to be repaid from year's income.

3. Loans for livestock purchases to be repaid over longer period but not to exceed 3 years.

Security requirements are:

1. Loans to corporations or other business organizations will be secured by the personal obligation of each person owing 10 percent or more of stock.

2. The best lien obtainable on all livestock and equipment owned when the loan was made.

3. A first lien on livestock and equipment purchased with loan funds.

4. The best lien obtainable on all crops.

5. When necessary, the best lien obtainable on all real estate.

6. Nondisturbance agreements from creditors.

7. Agreement for division of income when livestock is subject to a prior lien.

E. Emergency Loans

These loans are used to assist farmers in emergency areas to continue farming. They are made from funds provided by Congress. During the 1955 fiscal year $69,771,000 was loaned.

To be eligible an applicant must:

1. Be an established farmer in a designated emergency area.

2. Be engaged primarily in farming or livestock production.

3. Be unable temporarily to obtain needed credit from banks or other responsible sources.

4. Have good character.

5. Have the resources, experience, and managerial ability deemed necessary for the success of the operation.

6. If applying for a production emergency loan, have suffered substantial loss due to the emergency.

7. Have reasonable prospects of repayment and return to private credit.

Loan funds may be used in designated areas to:

1. Purchase feed, fuel, seed, fertilizer, and farm and home supplies.

2. Replace livestock lost in the disaster.

3. Replace or repair farm and home equipment.

4. Replace or repair buildings, fences, drainage or irrigation systems damaged as a result of the emergency.

5. Level land and remove debris resulting from the emergency.

6. Pay current taxes on real property when necessary.

7. Pay water charges necessary to the operation.

8. Make minor repairs or improvements to farm water supplies.

9. Pay labor, machinery hire and other essential expenses.

Loans may not be made to:

1. Refinance existing debts.

2. Pay cash rent.

3. Enable borrower to expand his normal operations.

Loan terms and repayment plans are:

1. Interest rate 3 percent on unpaid principal.

2. Loans for production of crops repaid as crops are sold.

3. Loans for feed repaid as livestock or livestock products are sold.

4. Loans for replacement of equipment, building repairs, or similar purposes, may be scheduled over a longer period.

Security requirements are:

1. A first lien on crops produced with loan funds.

2. A first lien on livestock and equipment purchased with loan funds.

3. The best lien obtainable on all other crops.

4. When necessary, the best lien obtainable on livestock and equipment owned when loan was made.

5. When necessary, the best lien obtainable on real estate.

6. Agreement for division of income when livestock is subject to a prior lien.

F. Insured Loans

These loans are made by the Farmers Home Administration in the farm ownership and soil and water conservation loan programs, from funds provided by private lenders and insured by the Government. Applications for insured loans are processed just the same as those made from funds borrowed from the U. S. Treasury. In the farm ownership program the insured loans are made in amounts up to 90 percent of the value of the farm. So far as the borrower is concerned, the fact that an equity is required in the case of an insured farm ownership loan is the only difference between the two types of credit.

The interest rate is $4\frac{1}{2}$ percent on the direct loans compared to $3\frac{1}{2}$ percent plus the 1 percent charge on the other type. The term - 40 years - is the same in both cases.

Mortgages on insured loans are given to the Farmers Home Administration but the note is made payable to the lender and indorsed by Farmers Home Administration to fully guarantee payment of the loan to the lender. Farmers Home Administration does all servicing on these loans and sends payments to the lender when they are due.

Insured loans made under the soil and water conservation program can be for the full amount of the cost of the improvements to be made with the loan.

V

Analysis of Results of Farmers Home Administration Loaning Programs

A brief summary of the loans made and insured by the Farmers Home Administration and predessor agencies and the repayments on these loans as of June 30, 1955 is as follows:

Total of all loans made	$3,500,000,000
Collections of principal	2,500,000,000
Interest collected	340,000,000
Principal outstanding	860,000,000

Following are some details on loans and repayments and progress made by borrowers:

A. Rural Rehabilitation Loans

These loans were made by predecessor agencies during the period 1935 to 1946. The unpaid balance of the loans was assumed for servicing by the Farmers Home Administration.

Total amount of loans made	$1,005,000,000
Repayments on principal	890,000,000
Payment of interest	124,350,000
Percent of matured principal collected	88.6%
Amount of principal charged off	83,000,000
Percent of principal charged off	8.3%
Amount of principal outstanding	32,000,000

B. Production and Subsistence Loans

The following figures are for the period November 1, 1946, through June 30, 1955:

Total amount of loans made	$876,390,000
Repayment of principal	570,880,000
Percent of matured principal collected	92.8%
Payment of interest	55,000,000
Percent of principal charged off	.5%

Progress made by a group of production and subsistence loan borrowers who recently paid their loans in full is indicated by the following:

Average number of years required to pay loans in full - 4	
Average net worth before loan was made	$6,145
Average net worth when loan was paid in full	9,079
Average annual farm income before loan was made	2,831
Average annual farm income when loan was paid in full	4,377

C. Farm Ownership Loans

The following figures are for the fiscal years 1938 through 1955 and include direct and insured loans:

Total number of loans made	88,500
Total number of loans paid in full	45,600
Total amount of direct and insured loans made	$563,890,000
Total payments on principal	281,800,000
Interest collected	82,792,000
Losses charged off	.3%
Principal repayments to maturities on loans still outstanding	110%

Average number of years required for those that have paid their loans in full to complete their payments has been approximately 10 years even though the repayment period was scheduled for a period of 40 years.

A study was made of a group of these borrowers (3,583) who had been assisted by this program for 5 years - 1949 to 1954. Following are some basic data from this study:

Average annual cash farm income before loan was made	$2,944
Average annual cash farm income in 1954	4,786
Average net worth before loan was made	5,292
Average net worth in 1954	8,654
Average value of livestock and equipment owned:	
Before the loan was made	3,395
In 1954	6,070

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